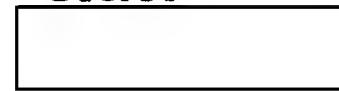


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MEXICO: The Echeverria government may be considering applying for observer status in the Council for Mutual Economic Assistance (CEMA).

On 3 June, Pravda had quoted Mexican Deputy Foreign Secretary Jose Gallastegui as saying that his government favored the idea of observer status in CEMA. Gallastegui, now in Prague after a CEMA meeting held there from 5 to 8 June, may be opening negotiations.

The USSR and its East European allies recently have been trying to establish stronger economic links with non-Communist nations through CEMA. In addition to Finland, which recently became the first non-Communist country to conclude an agreement with CEMA, Iraq, Iran, and India have been approached in the recent past.

Mexican participation in the Soviet-led CEMA would be in line with Echeverria's more aggressive foreign policy, and his desire to be more independent of US influence in the world economic arena. He probably intends to try to establish ties with any nation or economic grouping, regardless of its ideological orientation, that offers opportunities to exhibit this independence. Echeverria would also hope that association with CEMA would increase Mexican exports, although significant increases in the current low level of trade with Communist countries would not be likely soon.

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SPAIN: The cabinet to be sworn in today under Premier Carrero Blanco may tilt even more to the right than its predecessor. It will have a more balanced representation between adherents of the Catholic lay organization Opus Dei, who predominated the outgoing cabinet, and elements of the National Movement, the only legal political organization.

The Opus Dei representation slipped from eight to seven members, and its most flamboyant member, Lopez Bravo, was dropped as foreign minister. His replacement, however, is another dedicated Opus Dei member, economist and former planning minister Lopez Rodo. Conservative representation, particularly from an increased number of ministers drawn from the National Movement, rose from five to six. The remaining six ministers may at times support either the Opus Dei or National Movement faction.

The dismissal of some cabinet members who had policy or personality clashes with their colleagues should produce greater cohesion. The ministers of interior, justice, and education were dropped because of their failure to cope with problems in their areas of responsibility. The new cabinet is likely to take severe measures against those who protest injustices in Spain.

Foreign policy will reflect the commitment of the new foreign minister to the objective of Spain's integration in Western Europe. Although Lopez Rodo is generally well disposed toward the US, he is also a tough negotiator and a firm defender of Spanish economic interests. Thus, the Spanish position on bilateral issues with the US may become more rigid.

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YUGOSLAVIA: The federal government, reacting to strong criticism of its economic belt-tightening program, is moving to ease controls on growth. Continuing complaints, with overtones of Croat nationalism, complicate the government's task.

The economic stabilization drive, initiated last January to restore financial liquidity and halt inflation, has been only partially successful. Although irrational investment was reduced and workers' salaries were frozen, inflation continued to grow at an annual rate of about 20 percent. Forecasts of a politically damaging drop in the standard of living and grumbling from the republics and trade unions forced Belgrade to shift gears. Last week the cabinet announced the wage freeze would end on 1 July and other measures would be taken to revive the sluggish economy. Workers in one factory greeted the announcement by voting themselves a 33-percent raise.

Despite its concessions, Belgrade is still under attack. This week at a Zagreb party meeting, the Croatian Premier complained of unemployment, lagging production, and falling revenues. He said that stabilization could not be achieved in Croatia. Moreover, in a highly unusual expression of Croat nationalism, the Premier said that "the only thing being well fed with dinars is the federal budget, from taxes on trade." Similar complaints were used as slogans during the nationalist excesses which led to the Croat purge of 1971. Official revival of the theme may mean that the Zagreb leadership is under considerable grass-roots pressure and is dramatizing its recent warnings of "negative political consequences."

Stane Dolanc, Tito's heir-apparent in the party, showed concern in early May when he ordered the government to protect the workers' standard of living. Tito, who has not spoken out on domestic problems since late April, will be watching closely for reassurance that Dolanc is capable of handling difficult matters without his intervention. [redacted]

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SUDAN: The Numayri government has confirmed press reports that the prosecution of the eight Black September terrorists will begin next week with a judicial investigation as prescribed by Sudanese procedure. Such pre-trial proceedings are often prolonged, but may be expedited in this case. The terrorists apparently will be tried before a civil rather than a military court on the charge of murder, which carries the death sentence, or life imprisonment if the court finds extenuating circumstances. The government has found one reason after another to delay the trial, but may now believe that the proceedings will receive less international publicity while attention is focused on the UN Middle East debate. President Numayri may also wish to deflect public attention from recent price increases on basic commodities.

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WEST GERMANY: Government economic experts are now predicting that the trade surplus this year will set a record of \$10-11 billion. Real gross national product is expected to grow 6 percent, compared with the 4.5 percent that had been forecast earlier. The increase in the cost of living may reach or even exceed an annual rate of 9 percent this year, despite the enactment of stringent controls on credit and the anti-inflationary fiscal program just approved by a parliamentary mediation committee. Rather than moderate their wage claims, as the government had requested, the unions are demanding and receiving wage increases of 12-15 percent, which further add to inflationary pressures.

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JAPAN-CUBA: Japan's Ministry of International Trade and Industry (MITI) has floated a trial balloon indicating its readiness to lift a 12-year ban on Japanese Export-Import Bank credits to Cuba. An MITI official recently told a US Embassy official of the proposed move and it was subsequently aired in the Tokyo press. In recent years, Cuba has pressed Japan for official loans to finance purchases of such products as machinery, ships, and motor vehicles. In the past, Tokyo has refrained from extending credits out of deference to US wishes. MITI justifies the move by noting it is consistent with warming East-West relations, as well as on economic grounds. Moreover, Japan points out that European countries are already doing essentially the same thing, despite their acceptance of OAS resolutions restricting economic dealings with Cuba. If the credits are granted, Japanese sales are likely to grow considerably beyond the \$51 million recorded in 1972, reducing the growing trade deficit with Cuba. Last year's deficit of \$95 million was due primarily to large sugar purchases.

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USSR: The Soviets have planted a record area to spring grains, overcoming last fall's shortfall in the sowing of winter grains. The total spring grain area may amount to more than 104 million hectares, 5 million more than last year and 6 million more than the average in 1966-71. An early spring and above-average rainfall are harbingers of a good crop. Nevertheless, growing conditions from mid-June to mid-July will be decisive in determining the final outcome of the spring grain harvest.

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CUBA - LATIN AMERICA: The Trend Toward Re-integration

The Venezuelan campaign to force the Cuban issue in the OAS to a vote will give new impetus to Latin American efforts to end Cuba's isolation. Six hemispheric countries have either established or restored ties with Havana during the past year and others seem likely to act soon. The increasing willingness of Latin American governments to resume regular ties with Cuba has resulted from the combined influence of several factors:

--A broad transformation, since the mid-1960s, in Latin American attitudes toward the US and the rest of the world.

--An effort by the Cuban Government, since 1968, to normalize relations with other Latin nations.

--The perception by some Latin leaders of direct benefits in closer ties with Havana.

--The conviction of some governments that the US may embarrass them by suddenly reversing its Cuba policy.

The changing world view of Latin American leaders has resulted in part from a perception of a diminished external threat to hemispheric security. Most Latin leaders--confronted by a rising tide of nationalism--now see the problem of economic and social development as their principal concern. Because of their preoccupation with development, many Latins seem increasingly inclined to regard US economic interests as frequently incompatible with their own. Consequently, many governments are expanding their economic and political ties with Japan, Europe, and the Communist nations as a partial counterweight to US influence. Similarly, there is a growing Latin consensus that unified positions are needed in dealings with the US.

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The Castro regime has not merely been a passive beneficiary of this trend, but has sought at every turn to strengthen it. In mid-1968, Havana began to reduce its tangible support to Latin American revolutionary groups and initiated an effort to normalize relations with selected governments in the hemisphere. This shift in tactics resulted from the repeated setbacks of Cuba's subversive policy, mounting economic difficulties, and increased Soviet pressure. Cuban efforts to gain a respectable image included earthquake relief to Peru, Chile, and Nicaragua. In addition, Castro and other Cuban leaders toned down their revolutionary rhetoric. Havana's achievements, however, were generally limited to low-level contacts--athletic, cultural, and technical exchanges--until the Allende government re-established diplomatic relations with Cuba in November 1970.

In large part, this success in Cuba's efforts to reduce its isolation stems from the advantages Latin American governments see in normalized relations. Improving relations with Havana is a sure way of establishing an image of "independence" from the US without the risk of confrontation inherent in expropriation of US properties. Faced with the domestic pressures of fervent nationalistic emotions, many governments see such an image as a virtual necessity.

Some governments, such as Peru, Argentina, and Venezuela, apparently feel that receiving Castro's revolutionary endorsement can weaken the position of leftist opposition groups. Furthermore, formal relations are viewed as an effective way to terminate or at least curtail Cuban support to local guerrilla organizations.

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Others have sought improved ties with Havana to gain Cuban support for cherished foreign policy positions, particularly those involving actual or anticipated US opposition. Cuba has been an outspoken advocate of the Panamanian position in the canal negotiations. It has also supported the expropriation measures of Peru and Chile. In addition, Havana has sided with the Latin Americans on a number of general issues, including demands for sovereignty over natural resources and removal of restrictive US trade barriers and "coercive" economic measures.

Cuba also gives lip service to Latin demands for revision of the Law of the Sea, but in carefully worded generalizations that minimize conflict with the position of its chief ally, the USSR. Castro has also voiced substantial support for the right of the English-speaking Caribbean states to participate fully in inter-American affairs. In these and other problems, he is diligently encouraging the concept of Latin unity in dealing with the US.

A few Latin American leaders, particularly Torrijos of Panama, probably view rapprochement with Cuba as a leverage mechanism in bilateral dealings with the US. In Panama's case, low-level contacts are being gradually increased while the threat of formal relations is held as a trump card. Other leaders, such as Manley of Jamaica and Pindling in the Bahamas, may use their relationship with Cuba in an attempt to gain additional US aid.

Some governments also view Cuba as a potential customer. Cuba imported goods worth approximately \$10 million from Mexico in 1972, and recently signed a \$29-million contract with Peru for 110 fishing boats. Trade with Chile is continuing, Argentina proposes to sell corn to Cuba, and Venezuela has announced that talks on the sale of petroleum to Cuba have begun.

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Finally, Latin Americans are becoming convinced that efforts to isolate the Castro government have succeeded only in tightening the Soviet grip on Cuba. Many governments believe that the OAS sanctions policy cannot last much longer and wish to avoid the appearance of being last on the anti-sanctions bandwagon. In addition, considerable suspicion still remains that the US may embarrass those governments adhering to the present sanctions policy by suddenly reversing its own Cuba policy without consulting them.

Cuba's reintegration into the hemisphere will probably continue at its present steady pace. Venezuela and perhaps one or two other nations seem likely in the near future to follow Argentina's example in restoring formal relations. Others are likely to fall into line. In any case, support for the OAS sanctions will inevitably decline. The two-thirds majority (16 votes) required to lift the sanctions probably cannot be mustered this year, but the anti-sanctions forces need only one or two more votes to achieve the "moral victory" of an absolute majority (12 votes) against them.

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